A Publication from INPUT's Systems Integration Program

State Government Information Systems— EBT To The Rescue

As most people who don't live in California, and some that do, will tell you, California is a strange place. It's a cacophony of different ways of thinking and varied life styles and a leader in high technology and (beach bum) drop-outs. If it were a country, California's economy would rank seventh in the world.

As a user of information technology and services, California represents the best and the worst. In 1990, the state's budget for information technology topped $1 billion. The state has sophisticated data centers, is developing a comprehensive statewide digital network, and is conducting a pilot project for an interdepartmental electronic imaging system. However, underlying this high-tech sophistication is the fact that many of the state's systems are old and rely on extensive use of manual interaction and intervention to ensure that delivery of public services will continue.

Using California as an example, the purpose of this bulletin is to characterize difficulties that states have (or will have) in the application of new technologies to meet future needs. The bulletin considers the information systems environment in California (as an indicator of difficulties in many state governments), an approach that INPUT believes many states will pursue to meet future service delivery needs, and areas of vendor opportunity.

State Government Environment

As users of information technology, state governments are somewhat unique. Unlike commercial organizations and the federal government, state governments are subject to a greater number of conflicting pressures and influences.

Commercial organizations must continually make decisions about the allocation of funds to meet competitive needs. Investment may be a necessity to achieve an objective, but decisions about objectives and priorities are generally within the control of management.

As a public service organization, the federal government must deal with numerous conflicting pressures from a wide variety of interests. Funds are limited, many information systems requirements result from legal mandates and cannot be changed, and staffing levels cannot be easily reduced.

Like the federal government, state governments must meet legally mandated requirements. Here, funds are also limited and staffing levels cannot be easily reduced. State governments must respond to similar levels of special interests. But state governments are subject to additional pressures and requirements.

Unlike the federal government, which can change regulations and laws, states must abide by federal as well as state laws. Federally mandated requirements cannot be changed. State plans to develop new systems are frequently altered, sometimes quickly, to respond to federally mandated requirements. Regulations promulgated by federal departments can result in changes to entire systems.

In addition, because they are "closer to home," state government processes are more visible. The federal government, by virtue of size and distance, is removed from scrutiny. Public frustration that frequently should be directed at federal processes and controls is directed at states. The heightened visibility makes states less able to make investments. Public groups view investment funds as money that should be distributed directly to the public.

Until recently, the federal government provided financial assistance to states for the development and implementation of systems and processes that were mandated by federal laws or regulations. This has changed dramatically as the federal government has experienced increasing financial pressures. Over the past several years, the federal government has reduced its funding assistance to states for systems development by as much as 35%. Financial assistance for ongoing, federally mandated operations has been reduced by as much as 75%.

The cutbacks could not have come at a worse time. As with the federal government, many states are at or near fiscal crisis. California had to resolve a projected $14 billion funding shortfall for the upcoming fiscal year. Many states face similar fiscal difficulties. The effect has been to significantly reduce spending commitments at a time when states are in need of major overhaul of many of their information systems.

State Information Systems

In 1990, California's spending for information systems was projected to be $630 million, 1% of total projected state-wide spending of $66 billion. This excludes telecommunications and capital spending not charged to operating budgets. (Note that spending has been assumed to be equal to receipts—i.e., revenue—since California has a legal requirement for a balanced budget.)

Taken at face value, this would be considered a low level of spending by most industry standards, but this does not reflect true spending. An estimated 17% of the state's spending is through internal transfer, one department paying for services received from another. After accounting for internal transfer, the actual level of outside spending is closer to 0.8% of total spending. (In the commercial sector, some companies spend between 4% and 6% of revenues on information systems.)

In 1990, the state had 5,900 (person-year equivalent) personnel in information systems, which included a large number of staff dedicated to performing manual operations. Approximately 36% of the state's information systems spending is for personnel, as compared to the commercial sector, where personnel can represent up to 60% of costs.

On the surface, the data suggests that the state is doing a good job by keeping its information systems costs down. Careful analysis indicates that this may be false.

States, in fact, are faced with a dilemma. They recognize the potential value of technology. They would like to be able to reduce dependence on personnel, but are not able to make the investments to reduce staffing levels. And, while a substantial portion of personnel costs go for performing manual tasks, restrictive practices frequently preclude the use of automation to replace personnel.

At the same time, California allocates as much as 70% to 80% of its development costs to maintaining older systems. When only 1% or less of revenues is allocated to information systems, there is little opportunity for major systems efforts.

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Many states face the same dilemma California faces. How can they improve systems and reduce dependence on manual processes while making little investment?

Revolution, Not Evolution

Considerations by California and plans by a number of other states suggest that many may bypass the process of investing in major rewrites of large, centrally oriented systems and move directly to electronic interaction with benefit recipients.

Arizona, Arkansas, Kansas, Michigan, New York, and Wyoming are either planning or piloting systems to permit benefits recipients to apply for and receive services and benefits through direct, electronic interaction with state systems. Many suggest that electronic benefits transfer (EBT) will result in significantly reduced costs and better control over benefits processes.

Electronic benefits transfer is in its early stages, and the best approach to its implementation remains to be determined. One project uses debit-type cards that access automated teller machines (ATM) to disburse cash for the payment of goods and services. Another project uses a similar approach, but goods are dispensed only at participating food and medical outlets. States using this approach suggest that they have better control over goods and services received.

Another approach uses smart cards. Recipients receive a card with a predetermined spending limit. Each time the card is used, an amount is deducted from the total, until the total amount is used.

States piloting the use of EBT suggest that it could reduce processing costs by as much as 60%, as well as improve control, but a major problem prevents most states from realizing the potential of this type of technology. In many states, the health, social, and employment service departments are separate, and each has its own systems, which do not interact. Many suggest that EBT systems cannot be truly successful until benefits can be coordinated across departments.

Trends and Opportunities

Assessment of difficulties that exist in many states, and analysis of industry trends toward greater electronic interaction, suggest opportunities for vendors in two major areas.

States are only beginning to venture into the arena of electronic benefits delivery. The processes are complex and few states are familiar with the many technical and operational requirements. Vendors experienced in electronic delivery systems (EFT, POS, and ATM) could find a growing market. Of particular importance to states will be understanding customer interface requirements. States that have been satisfied with 95% system uptime and response times of two to three seconds may experience great difficulty in delivering electronic benefit services.

States will also need to begin to integrate data bases across department lines. Just as merchants would not contend with multiple point-of-sale terminals (for credit card authorizations) on their counters for very long, carrying multiple EBT cards will not be acceptable to the public.

The market opportunity will grow slowly for the next two to three years, providing ample time for vendors to establish credentials or alliances. Following that time, significant opportunities should begin to emerge.

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